

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-14 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
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R 031959Z AUG 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 6602
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

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REF: PARIS 21124

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1. SUMMARY
PRIME MINISTER BARRE ONECE AGAIN STRONGLY REMINDED HIS
VACATIONING COUNTRYMEN THAT THERE WOULD BE NO CHANGE
IN THE GOF'S FUNDAMENTAL ECONOMIC POLICY ALTHOUGH
HE DID HOLD OUT THE POSSIBILITY OF A SLIGHT
INCREASE IN PURCHASING POWER THROUGH THE END OF THE
YEAR. WITH VIRTUALLY EVERYTHING SHUT DOWN IN EITHER

JULY OR AUGUST, ONLY SEASONALLY ADJUSTED TRENDS WILL BE AVAILABLE UNTIL SEPTEMBER RESULTS ARE REPORTED SOMETIME IN OCTOBER. WHILE ACTIVITY IS EXPECTED TO RESUME IN SEPTEMBER AT ABOUT THE SAME LEVEL AS IN JUNE, INDUSTRIALISTS ARE CURRENTLY PESSIMISTIC ABOUT THE PROSPECTS FOR PRODUCTION IN THE FALL. END SUMMARY.

2. BARRE: NO CHANGE IN GOF'S ECONOMIC POLICY

IN A NATIONALLY TELEVISED INTERVIEW ON JULY 26, PRIM MINISTER BARRE STRONGLY RESTATED THAT THERE WOULDN'T BE ANY GLOBAL STIMULUS OF THE ECONOMY. THE GOF WOULD CONDUCT AN ACTIVE POLICY OF SUPPORT TO THE ECONOMY BY TAKING MEASURES AT THE OPPORTUNE MOMENT AIMED AT SPECIFIC PROBLEMS. HE ALSO SAID THAT HE HOPED THAT COLLECTIVE BARGAINING WOULD REOPEN THIS FALL AND THAT CERTAIN CONTRACTS WOULD BE CONCLUDED. HE SAID THAT HE WAS EVEN ABLE TO ACCEPT FROM NOW UNTIL THE END OF THE YEAR A VERY MODEST INCREASE IN PURCHASING POWER. THIS, IN ADDITION TO THE MEASURES AMOUNTING TO MORE THAN FF ONE BILLION TAKEN IN JULY IN FAVOR OF FAMILIES AND RETIRED, SHOULD, IN HIS OPINION, REINFORCE DOMESTIC DEMAND.

3. INDUSTRIALISTS EXPECT FALL IN PRODUCTION IN UNCLASSIFIED

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COMING MONTHS

THE INSEE SURVEY OF INDUSTRIALISTS REPORTS THAT MOST COMPANY HEADS REMAINED PESSIMISTIC IN EARLY JULY AND EXPECTED, AS IN MAY AND JUNE, A FALL IN THEIR PRODUCTION DURING THE NEXT FEW MONTHS. BACK ORDERS CONTINUED TO DECLINE AND WERE CONSIDERED TO BE MUCH LOWER THAN NORMAL. THE REDUCTION IN FOREIGN BACK ORDERS WAS CONFIRMED, PARTICULARLY FOR CONSUMER GOODS. AN INCREASING NUMBER OF INDUSTRIALISTS CONSIDERED THEIR INVENTORIES TO BE EXCESSIVE.

THE CAPITAL GOODS SECTOR WAS THE ONLY SECTOR IN WHICH PRODUCTION INCREASED. THERE WAS A LARGE INCREASE IN THE COMPUTER AND ELECTRONIC CONSTRUCTION INDUSTRIES AND A VERY MODERATE INCREASE IN ELECTRIC CONSTRUCTION AND PRECISION MACHINERY. PRODUCTION WAS STABLE IN GENERAL EQUIPMENT AND DECLINED IN OTHER INDUSTRIES. INTERNAL DEMAND APPEARED TO HAVE GAINED SOME STRENGTH LEADING TO AN INCREASE IN BACK-ORDERS, DESPITE A FALL IN FOREIGN ORDERS. HOWEVER, STOCKS INCREASED SHARPLY AND WERE CONSIDERED EXCESSIVE.

DURING THE NEXT FEW MONTHS, PRODUCTION OUGHT TO GROW AT A MODERATE RATE FOR THE ENTIRE SECTOR.

PRODUCTION RECENTLY DECLINED IN THE CONSUMER GOODS SECTOR, PARTICULARLY FOR HOUSEHOLD APPLIANCES. ONLY IN THE CLOTHING AND LEATHER-SHOES INDUSTRIES WAS THERE A SLIGHT INCREASE IN PRODUCTION. THE REDUCTION IN BACK-ORDERS CONTINUED: FOREIGN ORDERS WERE THOUGHT TO BE MUCH LOWER THAN NORMAL. PRODUCTION WAS EXPECTED TO DECLINE IN THE NEAR FUTURE.

PRODUCTION STABILIZED IN THE INTERMEDIATE GOODS INDUSTRIES. IN THE CHEMICAL-RUBER, PAPER-CARDBOARD, AND GLASS INDUSTRIES ACTIVITY INCREASED SLIGHTLY.
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HOWEVER, THE RECENTLY OBSERVED REGAIN OF ACTIVITY IN THE STEEL INDUSTRY APPEARED TO BE INTERRUPTED. BACK ORDERS WHICH HAD DECLINED SHARPLY SINCE MAY REMAINED VERY LOW, AND FOREIGN ORDERS WERE CONSIDERED TO BE MUCH BELOW NORMAL. INDUSTRIALISTS IN THIS SECTOR ALSO EXPECTED A FALL IN PRODUCTION.

4. AUTOMOBILE INDUSTRY PICKED UP IN JUNE

AFTER A SLUMP IN MAY, THE AUTOMOBILE INDUSTRY PICKED UP AGAIN IN JUNE. AUTOMOBILE REGISTRATIONS WERE 3.2 PERCENT ABOVE THE JUNE 1976 LEVEL AND WERE 6.6 PERCENT HIGHER FOR THE FIRST SIX MONTHS. EXPORTS REMAINED VERY FIRM, 14 PERCENT HIGHER THAN 12 MONTHS AGO AND 12.9 PERCENT HIGHER FOR THE FIRST SEMESTER. MANUFACTURERS THOUGHT THAT DURING THE NEXT FEW MONTHS, AN INCREASE IN EXPORTS COULD COMPENSATE FOR AN EVENTUAL WEAKENING OF THE INTERNAL MARKET. THE SITUATION REMAINED MEDIOCRE FOR HEAVIER VEHICLES, ALTHOUGH THEREHAD BEEN SOME RECENT IMPROVEMENT. FOR VEHICLES HEAVIER THAN 6 TONS, PRODUCTION INCREASED BY ONLY 0.6 PERCENT, REGISTRATIONS BY 1.0 PERCENT, WHICL EXPROTS DECLINED BY 4.3 PERCENT DURING THE FIRST SEMESTER AS COMPARED TO A YEAR AGO.

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AGRE-00 ITC-01 FEA-01 ERDA-07 /132 W
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FM AMEMBASSY PARIS
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AMEMBASSY BRUSSELS
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5. BOF ARRANGES SUPPLEMENTARY EXPORT CREDITS FOR SMALL
AND MEDIUM-SIZE BUSINESS

BY PERMITTING SUPPLEMENTARY RESERVES UP TO 9 PERCENT IN
PLACE OF 7 PERCENT ORIGINALLY PROVIDED FOR EXPROT
FINANCE FOR SMALL AND MEDIUM-SIZE FIRMS FOR THE FIRST
SEVEN MONTHS OF THIS YEAR, THE BOF HAS MADE AVAILABLE
APPROXIMATELY 500 BILLION FRANCS IN SHORT-TERM
ADDITIONAL EXPORT CREDITS. SMALL AND MEDIUM
SIZE FIRMS ARE DEFINED AS THOSE WHOSE ANNUAL
TURNOVER DOES NOT EXCEED 100 MILLION FRANCS. THE
NEW ANNUAL CEILING FOR SHORT-TERM EXPORT CREDITS IS
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A 14 PERCENT INCREASE OVER THE LEVEL OF LAST YEAR
IN PLACE OF THE 12 PERCENT INCREASE PROVIDED FOR
EARLIER.

6. 1978 BUDGET PROVIDES FOR 18 PERCENT INCREASE
IN EXPENDITURE ON PRIORITY PROGRAMS

THE PRELIMINARY BUDGET FOR 1978 PROVIDES FOR AN
18.0 PERCENT INCREASE IN EXPENDITURE ON THE

PRIORITY PROGRAMS IN THE SEVENTH PLAN. BY 1978
54 PERCENT OF THOSE PROGRAMS WHICH ARE FINANCED BY
THE GOVERNMENT WILL HAVE BEEN COMPLETED, WHICH IS
A HIGHER PROPORTION THAN IS NECESSARY FOR THE
COMPLETE AND REGULAR REALIZATION OF THESE PROGRAMS
DURING THE PERIOD OF THE PLAN.

7. NEW TAX ON INDUSTRIAL ENERGY CONSUMPTION

IN ORDER TO ENCOURAGE ENERGY-ECONOMIZING INVESTMENTS,
THE GOF HAS DECIDED TO INSTITUTE A 2-3PERCENT TAX
ON INDUSTRIAL ENERGY CONSUMPTION. THIS TAX WILL
EMBRACE ALL FORMS OF ENERGY, INCLUDING ELECTRICITY.
IT WILL APPLY, HOWEVER, ONLY TO LARGE INDUSTRIAL
CONSUMERS, AND IT WILL EXCLUDE SMALL FIRMS,
REGARDLESS OF THEIR CONSUMPTION. INDUSTRIALISTS
WILL BE EXONERATED FROM THIS TAX IF THEIR
ENERGY-SAVING INVESTMENT IS EQUIVALENT TO THREE
TIMES THE AMOUNT OF THE TAX. IN ADDITION, THE GOF
WILL SUPPLY A SUPPLEMENTARY BUDGET AID OF FF 50
MILLION TO THE AGENCY FOR ECONOMIZING ENERGY.

8. PRICES INCREASE BY 0.8 PERCENT IN JUNE
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THE RETAIL PRICE INDEX INCREASED BY 0.1 PERCENT IN JUNE

THE RETAIL PRICE INDEX INCREASED BY 0.8 PERCENT IN
JUNE, INDICATING THAT PERHAPS SOME PROGRESS IS
FINALLY BEING MADE IN LIMITING THE RATE OF INFLATION
AFTER INCREASES OF 0.9 PERCENT IN MARCH, 1.3 PERCENT
IN MAY, AND 0.9 PERCENT IN JUNE. HOWEVER, THE
RATE OF PRICE INCREASE HIT THE 5.0 PERCENT MARK
FOR THE FIRST HALF OF THE YEAR WHILE THE INCREASE
FOR THE 12 MONTH PERIOD ENDING IN JUNE WAS 10.2
PERCENT. THUS, IT APPEARS EXTREMELY UNLIKELY THAT
THE RATE OF INFLATION WILL BE LESS THAN 9 PERCENT
THIS YEAR.

AS USUAL THE PRICES OF FOOD PRODUCTS CONTINUED
TO BE THE MAJOR TROUBLE AREA, ALTHOUGH THE 1.0
PERCENT INCREASE WAS LOWER THAN THOSE OF THE
FOUR PREVIOUS MONTHS. THE INCREASE IN THE PRICES
OF MANUFACTURED GOODS WAS A FAIRLY HIGH 0.7 PERCENT,
WHILE THERE WAS A SIGNIFICANT REDUCTION IN THE INCREASE
OF THE PRICES OF SERVICES TO 0.5 PERCENT.

9. COMPANY FAILURES INCREASE DURING FIRST HALF
1977

THE TOTAL NUMBER OF COMPANY FAILURES IN FRANCE DURING THE FIRST SIX MONTHS OF 1977 INCREASED BY 9.6 PERCENT WITH RESPECT TO THE FIRST SEMESTER OF 1976. THE 1976 FIGURES WERE, IN TURN, 15.9 PERCENT LOWER THAN THOSE IN 1975. THE SECTORS WHICH HAVE BEEN HARDEST HIT BY FAILURES THIS YEAR ARE HOTELS-CAFES-RESTAURANTS (26.1 PERCENT INCREASE OVER A YEAR AGO) AND COMMERCE (13.2 PERCENT). IN CONTRAST, THERE HAS BEEN LITTLE CHANGE IN THE NUMBER OF FAILURES IN THE BUILDING PUBLIC WORKS INDUSTRY.

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10. APRIL SEASONALLY ADJUSTED MONEY SUPPLY

THE SEASONALLY ADJUSTED MONEY SUPPLY (M2) WAS FF 890.3 BILLION IN APRIL, 1.1 PERCENT INCREASE FOR THE MONTH AND 11.5 PERCENT INCREASE FOR THE 12 MONTH PERIOD ENDING IN APRIL. M1 WAS FF 456.7 BILLION IN APRIL, 1.1 PERCENT INCREASE FOR THE MONTH AND 11.5 PERCENT INCREASE FOR THE 12 MONTH PERIOD ENDING IN APRIL. M1 WAS FF 456.7 BILLION (0.8 PERCENT INCREASE) WHILE QUASI-MONEY WAS FF 432.8 (0.5 PERCENT INCREASE).

11. FRENCH LONG-TERM EXTERNAL BORROWING

THE FOLLOWING LONG-TERM EXTERNAL BORROWING WERE NOTED IN THE PRESS DURING THE REPORTING PERIOD:

1) BANQUE FRANCAISE DU COMMERCE EXTERIEUR, \$30 MILLION, 7 YEARS, 0.25 POINTS ABOVE INTERBANK RATE WITH A MINIMUM OF 6 3/9 PERCENT.

2) COMPANIE GENERALE MARITIME ET FINANCIER, \$20 MILLION, 6 YEARS 0.75 POINTS ABOVE INTERBANK RATE.

3) BANQUE NATIONALE DE PARIS OF LONDON, \$20 MILLION, 3. YEAR CERTIFICATES OF DEPOSIT, 0.25 POINTS ABOVE INTERBANK RATE.

12 OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS PARIS

21177 SIERRA LEONE EXTERNAL DEBT
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21380 WITHDRAWAL OF FUNDS BY IRANIAN GOVERNMENT

A-276 INVESTMENT OF FRENCH RESIDENTS ABROAD AND FOREIGN

INVESTMENT IN FRANCE

A-277 FRENCH FOREIGN EXCHANGE HOLDINGS

A-278 FRENCH FOREIGN EXCHANGE HOLDINGS

A-279 FRENCH DIRECT INVESTMENT ABROAD THROUGH 1975

A-279 FRENCH FOREIGN EXCHANGE HOLDINGS

A-283 TRADE WITH COMMUNIST AREAS

A-287 FRENCH FOREIGN EXCHANGE HOLDINGS

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Message Attributes

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Enclosure: n/a
Executive Order: N/A
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TAGS: EALR, EFIN, EGEN, FR
To: STATE
Type: TE
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